

ISSUE DATE: July 22, 1996

DOCKET NO. G-012/GR-96-572

ORDER SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Marshall Johnson
Dee Knaak
Don Storm

Chair
Commissioner
Commissioner
Commissioner

In the Matter of the Request of Western Gas
Utilities, Inc. to Increase its Rates for Natural
Gas Service

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PROCEDURAL HISTORY

On May 28, 1996, Western Gas Utilities, Inc. (Western or the Company) filed a petition seeking a general rate increase of approximately \$431,310, or approximately 14.43 percent of test year gross revenues.

On June 7, 1996, the Minnesota Department of Public Service (the Department) advised that Western's filing complied with statutory requirements, the Commission's rules governing filing requirements for rate changes, and Commission Orders subsequent to and including Western's most recent general rate case, Docket No. G-012/GR-92-22. The Department did not comment on the merits of the filing, indicating that the merits should be addressed in the course of the rate case proceeding.

On July 11, 1996, the matter came before the Commission for consideration.

On July 22, 1996, the Commission issued its ORDER ACCEPTING FILING, SUSPENDING RATES, AND AUTHORIZING INFORMAL PROCEEDINGS in this matter.

Under Minn. Stat. § 216B.16, subd. 3 (1994), if rates are suspended the Commission must set an interim rate schedule within 60 days of the Company's initial rate petition.

FINDINGS AND CONCLUSIONS

I. THE INTERIM RATE STATUTE

Minn. Stat. § 216B.16, subd. 3 (1994) provides in part as follows:

Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: 1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; 2) rate base or expense items the same in nature and kind as those allowed by a currently

effective order of the commission in the utility's most recent rate proceeding; and 3) no change in the existing rate design.

II. WESTERN'S PROPOSED INTERIM RATES

Western filed for an interim rate increase in conjunction with its general rate filing. Western proposed to increase rates for the interim period at the same overall level of 14.43 percent, the same level it is requesting for final rates. Western proposed to implement its interim rates effective on August 1, 1996. According to Western, an interim rate increase will allow it to recover its increased costs while its general rate filing is pending.

III. COMMISSION ANALYSIS

A. Rate Base Issue

Western attempted to include in rate base \$132,663 of unrecovered costs for certain demand entitlements. The Company was unable to recover this amount through the purchased gas adjustment (PGA) because the Commission in its April 1, 1996 Order in Docket No. G-012/M-95-847 denied Western's request to increase demand entitlements by 2,000 Mcf, whose value is \$132,663.

In that case, the Company had argued that its purchase of some excess capacity was necessary in order to secure additional capacity for growth it anticipated for ten years and beyond. The Commission rejected the argument, finding that the ratepayers derived no benefit from purchase of the additional 2,000 Mcf and should not be responsible for the additional gas costs during this time. Order at page 3. In short, the Commission disallowed the demand entitlements in question because it found the capacity was not needed.

In the current case, Western presents the same costs (\$132,663) that the Commission previously disallowed and makes the same argument about the alleged usefulness of those costs. The Commission's finding (cited above) in the April 1, 1996 Order that the capacity was not needed controls this case. Accordingly, the previously disallowed costs for demand entitlements will also be excluded from rate base, for purposes of computing interim rates.

Impacts of this exclusion on the Company's revenue requirement are:

- 1) reduction by approximately \$18,700 due to the \$132,633 reduction in rate base and
- 2) further reduction of \$3,800 due to the exclusion of the amortization of these costs (\$132,663 amortized over approximately 35 years) from the test year.

B. Western's Proposed Capital Structure

According to Minn. Stat. § 216B.16, subd. 3 (1994):

Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; ...

Consistent with this statute, Western is using the same capital structure for calculating interim rates as final rates despite the contrary statements in the cost of capital schedule in the interim rates petition.

<u>Type of Capital</u>	<u>Actual Ratio Used for Interim Rates</u>	<u>Proposed Ratio for Final Rates</u>
Debt	66.07 percent	66.07 percent
Equity	33.93 percent	33.93 percent

The proposed cost rates for debt and equity are approximately the same, i.e. 11.0 percent, and the Company is using the same cost of equity rate for interim rates as was authorized in the Company's last rate case, Docket No. G-012/GR-92-22. Therefore, Western's proposed overall cost of capital for interim rates is consistent with the statute and is acceptable for setting interim rates.

C. Increase in Rate Components

Relative to rate design, Minn. Stat. § 216B.16, subd. 3 (1994) states in pertinent part:

...the interim rate schedule...shall include...(3) no change in rate design.

The Commission has consistently interpreted Minn. Stat. § 216B.16, subd. 3 (1994) to require that the proposed percentage increase in interim rates be applied equally to all customer classes. This application is usually accomplished by requiring the utility to increase all customer classes by the same percentage amount and to use a separate line item on its customer bills to indicate the additional costs associated with the interim increase. For Western, however, an additional line item identifying the interim increase per customer cannot be used due to limitations in its billing systems.

Western's proposed interim rate increase applied to individual billing determinants causes only minimal differences in the percentage increase applied to the different customer classes.

Proposed Interim Customer Charges (per Month)

Rate Class	Current Customer Charge	Proposed Customer Charge	Percent Increase
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Residential	\$3.75	\$4.30	14.7%
Small Volume C&I	\$3.75	\$4.30	14.7%
Large Volume C&I	\$7.50	\$8.60	14.7%
Interruptible Service	\$28.50	\$32.60	14.4%
Interruptible Transportation	\$28.50	\$32.60	14.4%

Proposed Interim Commodity Charges (per McF)

Class	Present Commodity Charge	Interim Commodity Charge	Percent Increase
Firm	\$ 4.6975	\$ 5.3745	14.4%
Interruptible	\$ 3.0688	\$ 3.5117	14.4%
Interruptible Transportation	\$ 0.4270	\$ 0.4886	14.5%

As shown, the percentage increase applied to the customer charge is 0.3 percent higher for Firm customers than for the other customer classes. (14.7 percent for Firm customers compared to 14.4 percent for Interruptible and Interruptible Transportation customers.)

The Commission finds essential compliance with the statutory directive to avoid changing the rate design. The Company's proposed increases are essentially across-the-board with respect to all customer classes and the lack of absolute uniformity in the percentage of increases does not invalidate the Company's proposal. These increases must, of course, be recalculated to reflect the lower interim rate increase authorized by the Commission due to the disallowance of \$132,663 from test year rate base. See discussion at **III,A** above.

D. Effective Date

Western has requested that its interim rates be effective August 1, 1996 rather than July 27, 1996. The Company stated that the later date would be more convenient for its billing system.

Minn. Stat. § 216B.16, subd. 3 (1994), states that:

Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date.

The Commission has accepted the filing as complete as of the initial filing date May 28, 1996. See ORDER ACCEPTING FILING AND SUSPENDING RATES, issued in this matter July 22, 1996. According to the statute, therefore, interim rates are to be authorized no later than Saturday, July 27, 1996, i.e. 60 days after the May 28, 1996 filing date.

Since Western's interim rates are higher than its current rates, the interest protected by the 60 day deadline is the Company's. By requesting the later effective date, the Company has, in effect, waived its right under the statute to have interim rates in effect not later than 60 days after the initial filing. Western's customers would not be harmed by granting the Company's request. Under the Company's proposal, the customers would experience the lower rates for 5 additional days.

The Commission will authorize Western to put the interim rates into effect on July 27, 1996, thereby complying with the letter of the statute. However, the Commission will also acknowledge Western's waiver of its right to charge the interim rates as of July 27, 1996 and not begin charging the authorized interim rates until August 1, 1996.

ORDER

1. Western Gas Utilities, Inc. (Western or the Company) is authorized to collect \$408,810 (approximately 13.7 percent) in additional annual revenues in interim rates.
2. Western's interim rate proposal as modified in response to the Commission's decision to exclude \$132,663 from rate base (see above at **III, A**) is approved. The approved interim rate schedule will be effective for service rendered on or after July 27, 1996.
3. Western's waiver of its right to charge the interim rates authorized in this Order as of the effective date of such rates (July 27, 1996) is acknowledged. The Company's plan to delay charging the rates authorized in Ordering Paragraph 2 until August 1, 1996 is approved.
4. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing shall include a proposed notice to customers, to be approved by Commission Staff, regarding the rate change under the interim rate schedule.
5. The Company shall include with each customer's first bill charged under the interim rate schedule a notice (approved by Commission Staff) regarding the interim and proposed final rate changes. Upon completion of this task, the Company shall certify this fact to the Commission.
6. The Company shall keep such records of revenues collected under interim rates as will facilitate computation of a refund, if necessary. Any refund shall be made within 120

days of the effective date of the Commission's final Order, in a manner approved by the Commission.

7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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